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MINISTRY OF COMMERCE AND INDUSTRY

RESOLUTION

New Delhi, the 3rd October, 1960.

No. 63(6)-T.R./60.—It has been the practice for some years to pass on to the cane-growers an appropriate share of the price realized for sugar by factories. A formula for sharing the price was drawn up by the South Indian Sugar Mills Association in 1953 with the agreement of the cane-growers in their area. As that formula could not be applied to other sugar producing regions, a new formula was devised by the Ministry of Food and Agriculture for application to the whole country in 1954 While the principles underlying the new formula were generally accepted, there were complaints from the cane-growers' organizations that the percentage share of the sugar price allowed to them was low. On the other hand, the sugar industry represented that the allowance made for depreciation and replacement in working out the cost of manufacture of sugar (for purpose of the formula) was inadequate and did not take into account fully the current cost of machinery and spare parts. A committee was appointed by the Government, *vide* Ministry of Food and Agriculture Resolution No. SV-101 (5-1)/54, dated the 2nd April 1955, under the chairmanship of Shri P. A. Gopalakrishnan to examine the formula adopted for 1953-54 season and suggest modifications, with a view to its application in future years. The Committee considered the formula as sound in principle and recommended its application, with certain modifications, on a compulsory basis. The formula recommended by the committee was accepted by the Government for adoption on a compulsory basis with effect from 1958-59 season on an all-India basis, unless any alternative scheme was applied in a State or region in consultation with the State Government or Governments concerned.

2 The basic principle of the formula is that the growers supplying cane to a sugar factory, share with the factory owner the net sugar price realized by the latter during the year in the same ratio as the cost of cane bears to the factory's cost of production of sugar during that year, excluding taxes. For the purpose of the formula, the cost of production was to be determined on the basis of what was generally known as the amended Naidu Schedule. Since the amended Naidu Schedule did not provide for expenses on certain items, allowance had to be made in the price linking formula for items such as driage, selling commission on sugar, extra cost on transport of cane, bonus to labour, labour awards etc. The amended Naidu Schedule allowed to the industry profit at the rate of Re. -/10/4 per maund of sugar and an allowance of Re. -/8/4 per maund of sugar for rehabilitation

3. The Tariff Commission, which examined in 1958/59 the cost structure of sugar and fair price payable to the sugar industry, prepared four regional schedules for determining the price of sugar. The Commission has made provision for driage, selling expenses (as distinct from selling commission), extra cost on transport of cane etc. The Commission has also allowed a fair return of 12 per cent to the industry with a view to provide sufficient funds for each unit to meet its commitments under bonus, gratuity, interest on borrowed capital and

debentures, dividend on preference shares, managing agents' commission and income tax, and finally leave a residue to a large majority of the units in all regions to declare reasonable dividends. The Commission has not recommended the grant of any rehabilitation allowance for fixation of ex-factory price. The Government of India have accepted the recommendations of the Commission and have decided to make use of the cost schedules prepared by the Commission to fix the control prices of sugar where necessary. The question of making suitable adjustments in the price linking formula in the light of the Commission's report and the cost schedules prepared by them has now arisen.

4. The sugar industry has claimed that rehabilitation allowance should be allowed as in the past before the sugar price is made shareable with the growers, according to the price linking formula. In support of their request, the industry has quoted a judgement of the Supreme Court of India given in May 1959 in the dispute between the Associated Cement Cos. Ltd., and their workmen. The industry has also contended that there should be no question of sharing the sugar price with the growers in the regions where control on ex-factory prices of sugar operates. The control prices are related to the minimum price of cane and the industry, as a whole, in these regions does not earn any extra price. The industry has, however, no objection to sharing with the growers any extra advantage out of special incentives given by the Government, but some simple formula for this should be evolved.

On behalf of the growers, it is contended that the existing formula is not only complicated, but also unfavourable to the growers.

5. In view of the difficulties indicated in paragraph 3 and the representations received from the industry and on behalf of the cane-growers, the Government of India consider that a fresh examination of the matter has become necessary. The Tariff Commission is accordingly requested under section 12(d) of the Tariff Commission Act, 1951, to—

(i) examine the matter in all its aspects and suggest modifications in the existing formula with a view to improving it or to suggest a revised all-India formula or regional formulae in the light of the cost schedules given by the Commission in its report on cost structure of sugar and fair price payable to the industry, keeping in view the need for making the formula simple, easy of application and intelligible to the cane-growers.

(ii) examine whether the claim of the industry for a rehabilitation allowance in the matter of division of sugar price between the cane-grower and the industry is justified and, if so, the rate at which the allowance should be allowed in the price linking formula (e);

(iii) examine whether the formula (e) should be made applicable to regions where ex-factory prices have been fixed, and in case the formula is not applied, how the advantage of special incentives given to factories in years of control should be shared between the industry and the growers.

(iv) examine the effect of the price linking formula (e) on the establishment of new factories with heavy capital outlay and whether any concession should be allowed to them in the matter of application of the formula (e).

The Commission is requested to submit its report to the Government as early as possible.

Firms or persons interested in the matter, who desire that their views should be considered, should address their representations to the Secretary, Tariff Commission, Central Government Offices Building, 101, Queens Road, Bombay-1.

ORDER

ORDERED that a copy of this Resolution be communicated to all concerned and that it be published in the Gazette of India.

S. RANGANATHAN, Secy.

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